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CENTRAL INTELLIGENCE BULLETIN



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State Dept. review completed

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4 May 1961

CENTRAL INTELLIGENCE BULLETIN

CONTENTS

25X1

3. Portugal: Further cabinet changes made to strengthen support for Salazar's status quo policies. (*Page iii*)

25X1

5. India: New Delhi purchases British jet light bombers. (*Page iv*)

6. Iraq: Iraq Petroleum Company alarmed over strained relations with Qasim regime. (*Page iv*)

25X1

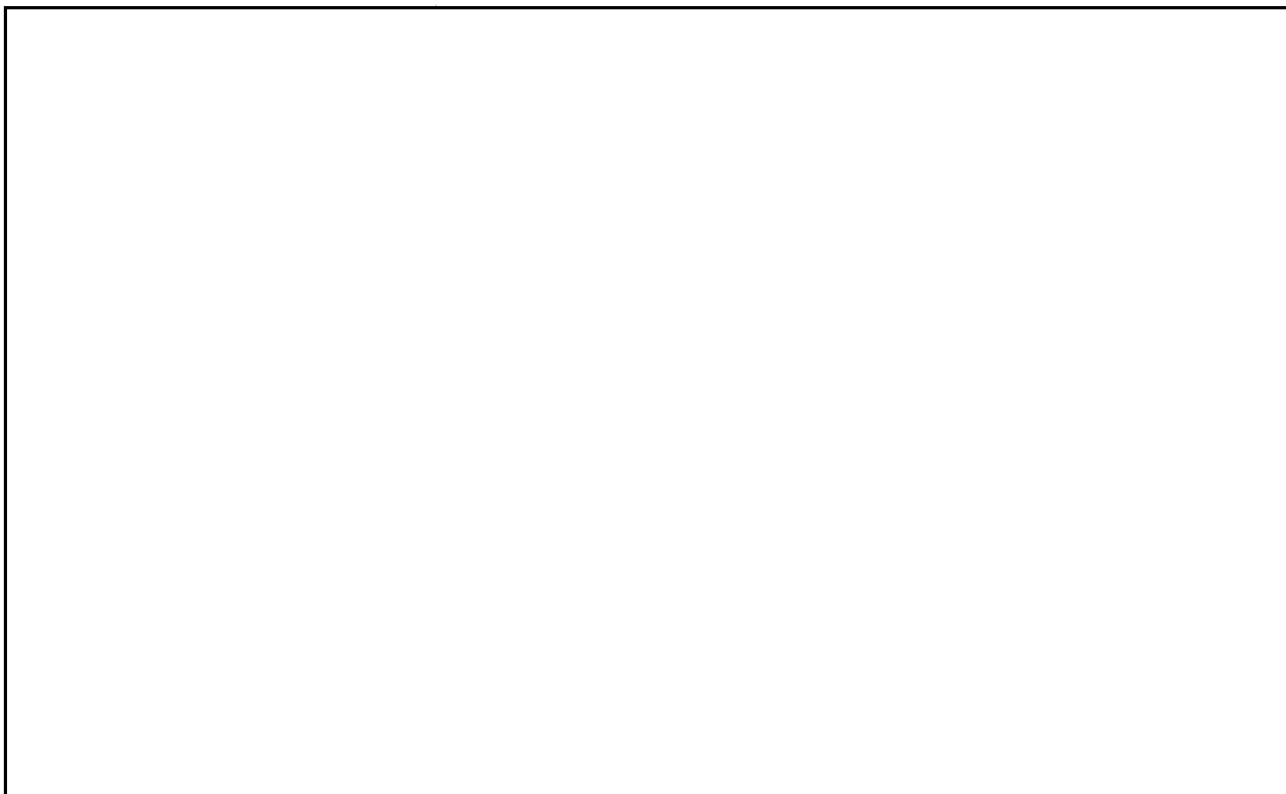
8. Ethiopia: Haile Selassie financing army and police pay raises by reducing civil servants' salaries. (*Page v*)

9. Panama: Popular discontent reported "potentially explosive." (*Page v*)

10. Watch Committee conclusions. (*Page vi*)

25X1

Next 3 Page(s) In Document Exempt



Portugal: The cabinet changes made by Prime Minister Salazar on 3 May in the Foreign Affairs, Interior, Education, and Corporations ministries are a continuation of the reshuffle begun on 13 April when he took over the defense portfolio and replaced the overseas and army ministers. These changes reflect Salazar's determination to strengthen further the loyalty of the cabinet to his policies of maintaining the status quo at home as well as in Portugal's overseas territories. The replacement of Foreign Minister Marcello Mathias, who has been generally friendly toward the US, suggests that Portugal may take a tougher stand in its future relations with Washington.

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4 May 61

DAILY BRIEF

iii



25X1

25X1

25X1

India: New Delhi has reportedly contracted for the purchase of Canberra jet light bombers from Great Britain

25X1

Delivery of these aircraft, scheduled for completion by August, will bring the Indian Air Force's (IAF) fleet of Canberras to a total of 95, including 13 trainer and photo-reconnaissance versions. The purchase will draw down still further India's sterling reserves, now at an all time low of \$267,000,000, but the Defense Ministry argued that these planes were necessary to strengthen IAF capabilities in the northeastern frontier area opposite Tibet. High-ranking Indian officers continue to favor Western combat equipment, which must be paid for in hard currency, despite opportunities to deal with the bloc on more favorable terms and on a rupee payment basis. (Backup, Page 3)

No

25X1

Iraq-Oil: Alarmed over strained relations between the Iraq Petroleum Company (IPC) and the Iraqi Government, the company chairman, Lord Monckton, is personally taking over negotiations with Prime Minister Qasim. Both the IPC managing director and the company's chief representative in Iraq, who have conducted negotiations for two and one-half years since Qasim's assumption of power, have been publicly criticized by Qasim and vilified recently in the Iraqi press. The chairman's action is being taken under pressure from the

No

25X1

4 May 61

DAILY BRIEF

iv

25X1

25X1

French interests in IPC, who remain fearful that Baghdad might nationalize their 23.75-percent share.

Ethiopia: Haile Selassie is carrying out his decision, announced last month, to finance army and police pay raises by reducing the salaries of civil servants. The reductions, amounting to as much as 20 percent of basic salaries with 50-percent cuts in allowances, will increase discontent among the educated younger officials who have been most critical of the regime. The action probably will also increase their resentment against foreign advisers, who are exempted from the measure, and possibly against the army and police whose recent agitation for higher pay precipitated the Emperor's decision. The civil servants may organize protest demonstrations. They may also try to hamstring government operations, but the Emperor's control will not be endangered as long as he retains the army's support.

25X1

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Panama: Although prompt action by the government effectively controlled recent pro-Castro demonstrations, Panama's

OK

4 May 61

DAILY BRIEF

v

25X1

internal situation, "while not imminently critical, is dangerous and potentially explosive," according to the American ambassador there. President Chiari has been concerned over evidence that revolutionary groups anxious to overthrow him are closely allied with pro-Castro elements and are probably receiving money via the Cuban Embassy in Panama. He doubts the ability of the National Guard, Panama's only armed force, to repulse strong opposition. Discontent arising from economic stagnation and unemployment provides fertile ground for political agitation in Panama. [REDACTED]

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WATCH COMMITTEE CONCLUSIONS

- A. No change from last week.
- B. No change from last week.
- C. Carried on page ii of Daily Brief.

25X1

4 May 61

DAILY BRIEF

vi

25X1

Next 1 Page(s) In Document Exempt

Further Cabinet Changes in Portugal

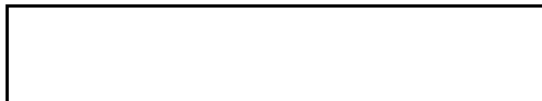
The four new appointees to cabinet posts may all be considered individuals in whom Salazar has great personal confidence. The new foreign minister, Alberto Franco Nogueira, previously served as director general of political affairs in that ministry and has been one of Portugal's delegates to the UN. Interior Minister Lt. Col. Arnaldo Schulz has been replaced by Alfredo Rodrigues dos Santos. Schulz reportedly was a follower of General Botelho Moniz, whom Salazar dropped from the Defense Ministry as a result of Moniz' declared intention to press for certain reforms in the administration of African colonies even if it meant the removal of Salazar.

The appointment of Manuel Lopes de Almeida to the Education Ministry and Jose Goncalves Proenca to the Corporations Ministry brings 'new blood' into higher levels of government.

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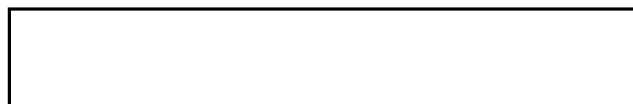
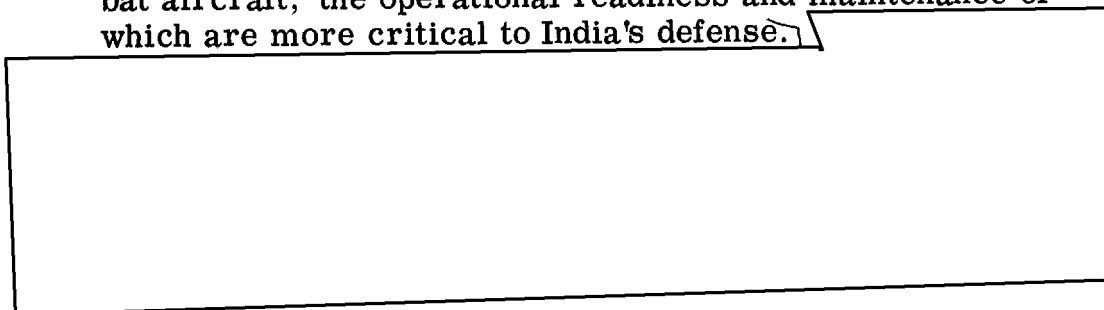
India to Buy Additional Canberra Jet Bombers From UK

[The three operational Canberra bomber squadrons now active in the Indian Air Force (IAF) are deployed primarily to counter threats from Communist China and Pakistan on India's northern and northwestern frontiers. Additional Canberras will permit formation of a fourth squadron for full-time duty in the sensitive northeast area.]

[In choosing to buy more Canberras, New Delhi has in effect rejected Russian offers to provide Beagles (IL-28s), which could perform much the same mission and would cost less. One reason for this decision lies in the Indian military's belief that spare parts will continue to be available in the West--nearly three fourths of the IAF's jet strength is of British origin, while the rest is French.]

[The overriding consideration, however, appears to be political. In an effort to enlist Soviet support in the Sino-Indian border dispute, New Delhi is willing to buy transport aircraft from the Soviet Union for use on the Indian-Chinese border, as evidenced in the recent purchases of Cubs (AN-12s) and Crates (IL-14s). It is apparently not willing, despite the cost, to take the same gamble with regard to combat aircraft, the operational readiness and maintenance of which are more critical to India's defense.]

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Panama

President Chiari's failure to assert strong leadership after he took office last October encouraged disaffection in his own weak coalition and plotting by opposition groups. Recently, however, he has demonstrated some initiative in both planning and action and has asked the US for assistance to carry out widespread economic and social reforms as well as for material and training to increase National Guard capabilities.

Chiari and the rest of Panama's wealthy circle of ruling families, in their periodic struggles for control of the country, have traditionally exploited restless, impoverished urban groups. The illegal Communist party, known as the People's Democratic party (PDP), has been too weak and badly organized to capitalize on this situation. In the past year, however, radical elements apart from the PDP have received increasing encouragement and aid from Cuba and appear determined to start a revolution in Panama. Several of these radicals, like labor leader Andres Galvan, have been trained in Communist China and/or the USSR and may be the nucleus of a new, more effective Communist grouping in Panama. They are receiving cooperation from political figures like Deputy Thelma King, newspaperman Jorge Turner, and several known revolutionary agitators. The combined influence of this group could stir up the deep discontent which is never far below the surface, especially in Panama City and Colon, both adjacent to the Canal Zone.

The most active revolutionary group has mentioned May as the best time to attempt a coup. [redacted] described the Castro-backed chief of the same group as very discouraged by the rapid progress made in recent weeks by the government housing institute. [redacted] felt its success would seriously undermine the potential for overthrowing Chiari, and he may believe that he must act soon before the President takes further action on his planned reforms or strengthens the National Guard. [redacted]

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